Accounting for Governmental & Nonprofit Entities

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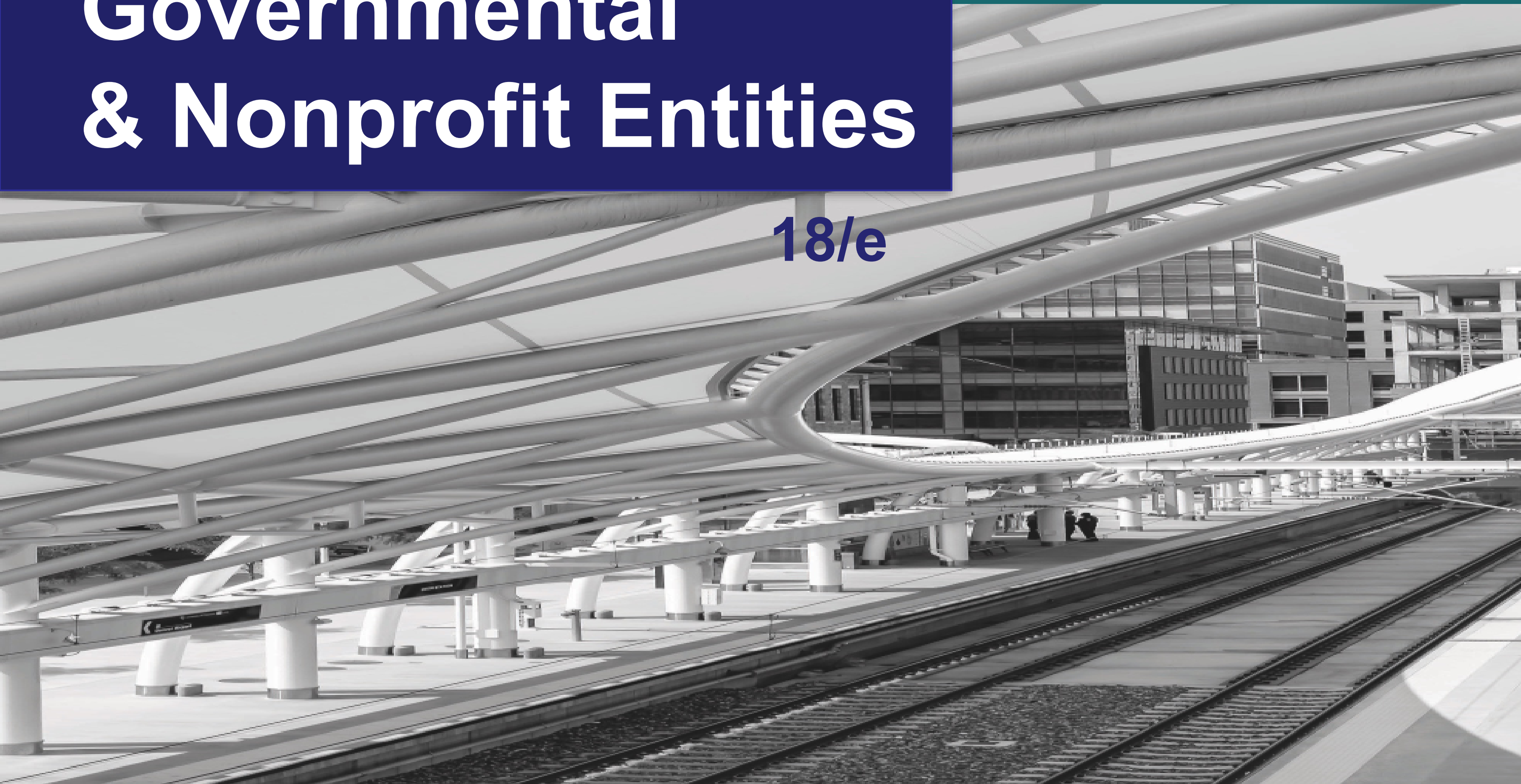

CHAPTER 1

Introduction to Accounting and Financial Reporting for Government and Not-for-Profit Entities

Learning Objectives
(1 of 2)

1-1 Identify and explain the characteristics that distinguish government and not-for-profit entities from for-profit entities.

1-2 Identify the authoritative bodies responsible for setting financial reporting standards for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

1-3 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, (3) and not-for-profit organizations.

Learning Objectives
(2 of 2)

1-4 Explain the minimum requirements for general purpose external financial reporting for state and local governments and how they relate to comprehensive annual financial reports.

1-5 Identify and describe the required financial statements for the federal government.

1-6 Identify and describe the required financial statements for not-for-profit organizations.

Government & Not-for-Profit Accounting Practices Differ from Business

They have different purposes in society.

Management has a special duty to be accountable for how resources are used in providing services.

They are financed by resource providers who do not expect benefits proportional to the resources they provide.

Types of Governments

General purpose governments provide a broad array of services.	Federal government, state governments, cities, towns, townships, villages, counties, boroughs, and parishes
Special purpose governments usually provide only a single or just a few services.	Independent school systems, public colleges and universities, public hospitals, fire protection districts, and many others

Not-for-Profit Organizations

Not-for-profit organizations are legally separate organizations which are usually exempt from federal, state, and local taxation.

Characteristics of Government and Not-for-Profit Organizations

Unlike for-profit organizations, resource providers do not expect to receive repayment or proportional benefits.

The organization lacks a profit motive.

There is an absence of transferable ownership rights.

Characteristics of Government Organizations

Power ultimately rests in the hands of the people.

People delegate power to public officials through the election process.

Empowered by and accountable to a higher level government.

The organization has the power to tax.

Sources of Financial Reporting Standards

FASB	• Business organizations • Nongovernmental not-for-profits
GASB	• State and local government organizations • Governmental not-for-profits
FASAB	• Federal government and its agencies and departments

Objectives of Financial Reporting
(1 of 2)

"***Accountability*** is the cornerstone of all financial reporting in government." –GASB, *Concepts Statement No. 1*

Accountability requires governments to justify the raising and use of public resources, such as taxes.

Objectives of Financial Reporting (2 of 2)

Interperiod equity is a government's obligation to disclose whether current-year revenues were sufficient to pay for current-year benefits—or will future taxpayers be required to pay for them instead?

Objectives of Financial Reporting for Local Governments

Government financial reports are used primarily to:

Compare actual financial results with the legally adopted budget.	Assess financial condition and results of operations.	Assist in determining compliance with finance-related laws, rules, and regulations.	Assist in evaluating efficiency and effectiveness.

Objectives of Financial Reporting for the Federal Government

Federal government financial reporting should assist report users in evaluating:

Budgetary integrity.	Operating performance.	Stewardship.	Adequacy of systems and controls.

Objectives of Financial Reporting for Not-for-Profit (NFP) Organizations

NFP financial reporting should provide information useful in:

Making resource allocation decisions.	Assessing services and the ability to provide services.	Assessing management stewardship and performance.	Assessing economic resources, obligations, net resources, and changes in them.

Minimum Requirements for General Purpose External Government Financial Reporting

Management's discussion and analysis

Government-wide financial statements ↔ **Fund financial statements**

Notes to the financial statements

Required supplementary information (other than Management Discussion and Analysis MD&A)

Government Financial Statements

There are two categories of basic government financial statements:

Government-wide financial statements, which provide an aggregated overview of a government's net position and changes in net position.

Fund financial statements, which provide more detailed financial information about a government.

Government-wide Financial Statements

- Assist in assessing ***operational accountability***—whether a government has used its resources efficiently and effectively in meeting service objectives
- Focus on ***flow of economic resources***
- Use the ***accrual basis of accounting***, like business organizations

Fund Financial Statements
(1 of 3)

For now, think of a ***fund*** as a separate set of accounts used to keep track of resources segregated for a particular purpose—there is more detail on funds in Chapter 2.

Fund Financial Statements
(2 of 3)

- Assist in assessing ***fiscal accountability***—whether the government raised and spent financial resources in accordance with budgetary, legal, and regulatory constraints
- Focus on ***short-term flow of current financial resources***
- Use the ***modified accrual basis***—revenues recognized when measurable and available for spending; expenditures recognized when an obligation is incurred that will be paid from currently available financial resources

Fund Financial Statements
(3 of 3)

Other fund categories (see Chapter 2):

- ***Proprietary funds*** report on business-like activities of the government.
- ***Fiduciary funds*** report on fiduciary (trust and agency) activities of the government.
- Both categories follow accounting principles similar to businesses.

Comprehensive Annual Financial Report (CAFR)

A ***Comprehensive Annual Financial Report (CAFR)*** provides more detail than the minimum requirements for general purpose financial reporting.

While not required to prepare a CAFR, most governments do so.

CAFR is prepared in conformity with GASB standards.

CAFR Sections

A CAFR prepared according to GASB standards should contain three sections:

- Introductory Section
- Financial Section
- Statistical Section

CAFR—Introductory Section

Title page

Contents page

Letter of transmittal

Other (as desired by management)

CAFR—Financial Section

The financial section should contain sufficient information to disclose fully and present fairly the financial position and results of financial operations during the fiscal year. Items included in the financial section are:

- Auditor’s report
- Management’s discussion and analysis (MD&A)
- Basic financial statements (and related notes)
- Required supplementary information (RSI; other than MD&A)
- Other supplementary information, such as combining statements and individual fund statements and schedules

CAFR—Statistical Section

The statistical section typically presents tables and charts showing demographic and economic data, financial trends, fiscal capacity, and operating information of the government in the detail needed by readers who are more than casually interested in the activities of the government.

Performance and Accountability Report (PAR) (1 of 2)

The PAR should include four sections:

1. An MD&A, providing an overview of PAR and a clear description of the department or agency's mission.
2. Performance section containing the APR, which provides information about the agency's performance and progress in achieving its performance goals.

Performance and Accountability Report (PAR) (2 of 2)

3. Basic financial statements: balance sheet, statement of net cost, statement of changes in net position, statement of budgetary resources, statement of custodial activity, and statement of social insurance.

4. Other accompanying information such as information about tax burden, tax gap, challenges facing management, and revenue forgone.

Not-for-Profit (NFP) Organizations Financial Reporting (1 of 3)

The primary purpose of NFP financial statements is to provide decision-useful financial information to resource providers, such as donors, members, and creditors.

These resource providers need information to assess the services provided by an NFP and the ability of the NFP to continue to provide those services, as well as management's performance and stewardship of resources.

Not-for-Profit (NFP) Organizations Financial Reporting (2 of 3)

Those NFP organizations that are nongovernmental in nature are required to follow FASB accounting and financial reporting standards. These standards require presentation of a:

- Statement of financial position (balance sheet).
- Statement of activities (income statement).
- Statement of cash flows.

Not-for-Profit (NFP) Organizations Financial Reporting (3 of 3)

In addition to these statements, NFPs are required to present information showing the relationship between functional expenses and natural expenses.

This information can be presented as one of the following:

- Part of the statement of activities
- A schedule in the notes to the financial statements
- A separate financial statement

Reporting Requirements Unique to Not-for-Profit Organizations

- Demonstrating accountability for donor-imposed restrictions by reporting net assets and changes in net assets in one of two categories: (1) net assets without donor restrictions or (2) net assets with donor restrictions.
- Reporting program service expenses separately from supporting service expenses. The latter include overhead (such as, non-program management and general expenses) and fund-raising expenses.

Other Accountability Reporting

- Popular Reports – highly condensed and unaudited
- Service Efforts and Accomplishments (SEA) – include both financial and nonfinancial measures of service efforts and service accomplishments

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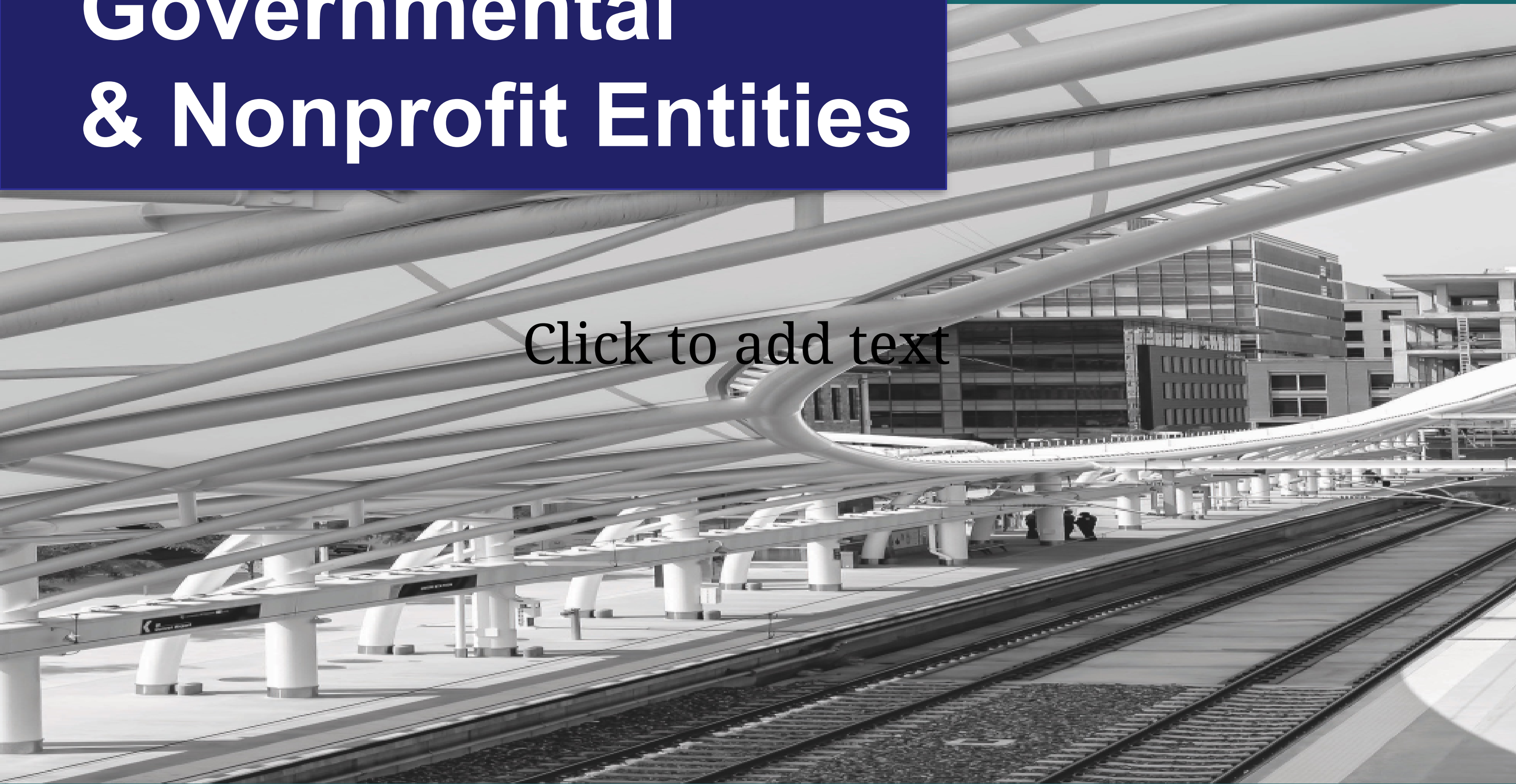

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Principles of Accounting and Financial Reporting for State and Local Governments

CHAPTER 2

Learning Objectives
(1 of 2)

2-1 Describe the concepts related to the financial reporting requirements of the GASB reporting model.

2-2 Explain the nature of the three major activities of a state or local government: governmental activities, business-type activities, and fiduciary activities.

Learning Objectives
(2 of 2)

2-3 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including
- Government-wide financial statements.
- Fund financial statements.
- Definition of *fund* and principles of fund accounting.
- Types of funds in each fund category and characteristics of each fund type.

2-4 Discuss the nature of major fund reporting and the criteria used to determine whether a fund should be reported as a major fund.

Conceptual Framework for Financial Reporting

- Provide information that can be used to assess a government's accountability
- Assist users in making economic, social, and political decisions

- Those external to government; principally, citizens, legislative and oversight bodies, and creditors

- Understandable
- Reliable
- Relevant
- Timely
- Consistent
- Comparable

Useful Information

- Communicating the information in a manner that is helpful to the user is an important part of making information useful.
- Areas identified in GASB *Concepts Statement No. 3* are:
  - recognition in the financial statements;
  - disclosures in the notes to the financial statements;
  - presentation as required supplementary information; or
  - presentation as supplementary information.

Recognition and Disclosure

- An item of information that meets the definition of an element and is measurable with sufficient reliability should be recognized in the financial statements.
- A note should be used if it can help support an item recognized in a financial statement or provide information that is essential to the user's understanding of the item.

Required Supplementary Information (RSI)

- Required supplementary information is used to provide information that is essential.
- Without this information, the financial statements and related notes cannot be placed in the correct context.
- Examples of RSI include the management discussion and analysis, budget to actual schedules, and several pension disclosures.

Other Supplementary Information

- Other supplementary information is used to provide information that is useful.
- Other supplementary information is useful but not essential in understanding the financial statements and related notes.
- Much of the other supplementary information is found in the statistical section of the comprehensive annual financial report (CAFR).

Elements of Financial Statements
(1 of 3)

Before an item can be recognized it must meet the definition of an element. The seven elements are:

- Assets, which are resources with present service capacity that the government presently controls.
- Deferred outflows of resources, which are the consumption of net assets by the government that applies to a future reporting period.
- Liabilities, which are present obligations to sacrifice resources that the government has little or no discretion to avoid.

Elements of Financial Statements (2 of 3)

- Deferred inflows of resources, which are the acquisition of net assets by the government that applies to a future reporting period.
- Net position is the residual when assets + deferred outflows − liabilities − deferred inflows is calculated (net position appears in a statement of financial position).

Elements of Financial Statements
(3 of 3)

- An inflow of resources is the acquisition of net assets by the government in the current reporting period (e. g., revenues and other resources).
- An outflow of resources is the consumption of net assets by the government in the current reporting period (e.g., expenses, expenditures, and other uses of resources).

Measurement Attributes

The GASB identifies four measurement attributes that can be used when determining initial and remeasurement amounts for assets and liabilities:

- Historical cost
- Fair value
- Replacement cost
- Settlement amount

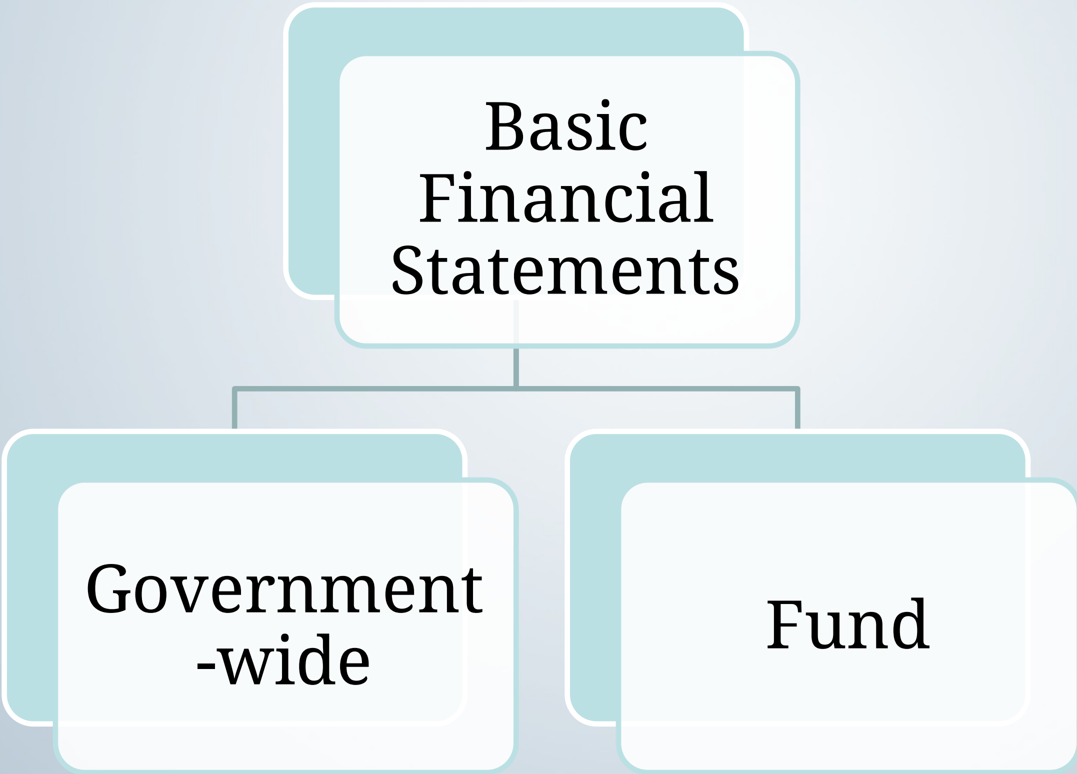
Activities of Government

Governmental Activities Chapters 3 - 6

Business-type Activities Chapter 7

Fiduciary Activities Chapter 8

Financial Reporting Model



Government-wide Financial Statements (1 of 2)

Measurement Focus	Economic Resources
Basis of Accounting	Accrual
Accountability	Operational

Government-wide Financial Statements (2 of 2)

Statement of Net Position

Reports year end financial position
Most comparable to a business' balance sheet

Statement of Activities

Reports expenses and revenues classified by program or function
Uses separate columns for governmental activities, business-type activities, and component units

Fund Financial Statement Focus

Governmental Funds	• Fiscal accountability • Flow of current financial resources • Modified accrual basis
Proprietary Funds	• Operational accountability • Flow of economic resources • Accrual basis
Fiduciary Funds	• Operational accountability • Flow of economic resources • Accrual basis

Fund Financial Statements

Governmental Funds	• Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balance
Proprietary Funds	• Statement of Net Position • Statement of Revenues, Expenses, and Changes in Fund Net Position • Statement of Cash Flows
Fiduciary Funds	• Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position

Governmental Activities Reconciliations

Because governmental activities are reported using the accrual basis in the government-wide financial statements, but are reported using modified accrual basis in the governmental funds financial statements, fund balances and operating results on fund financial statements must be reconciled to those presented in the government-wide financial statements.

Fund Reporting

Fund reporting was developed to meet the challenge of reporting revenues and related expenditures that are legally or contractually constrained for specific purposes separately from revenues and expenditures without such constraints.

Fund Concept

The concept of a *fund* is fundamental to government accounting and reporting.

A fund is a separate fiscal entity, which means it has its own resources, its own liabilities, and its own operating activity for the fiscal period.

Furthermore, a fund conceptually has its own set of accounting records allowing it to prepare separate financial statements. Thus, it is a separate accounting entity as well.

Fund Categories

Governmental Funds

General Fund	Special revenue funds	Debt service funds	Capital projects funds	Permanen t funds

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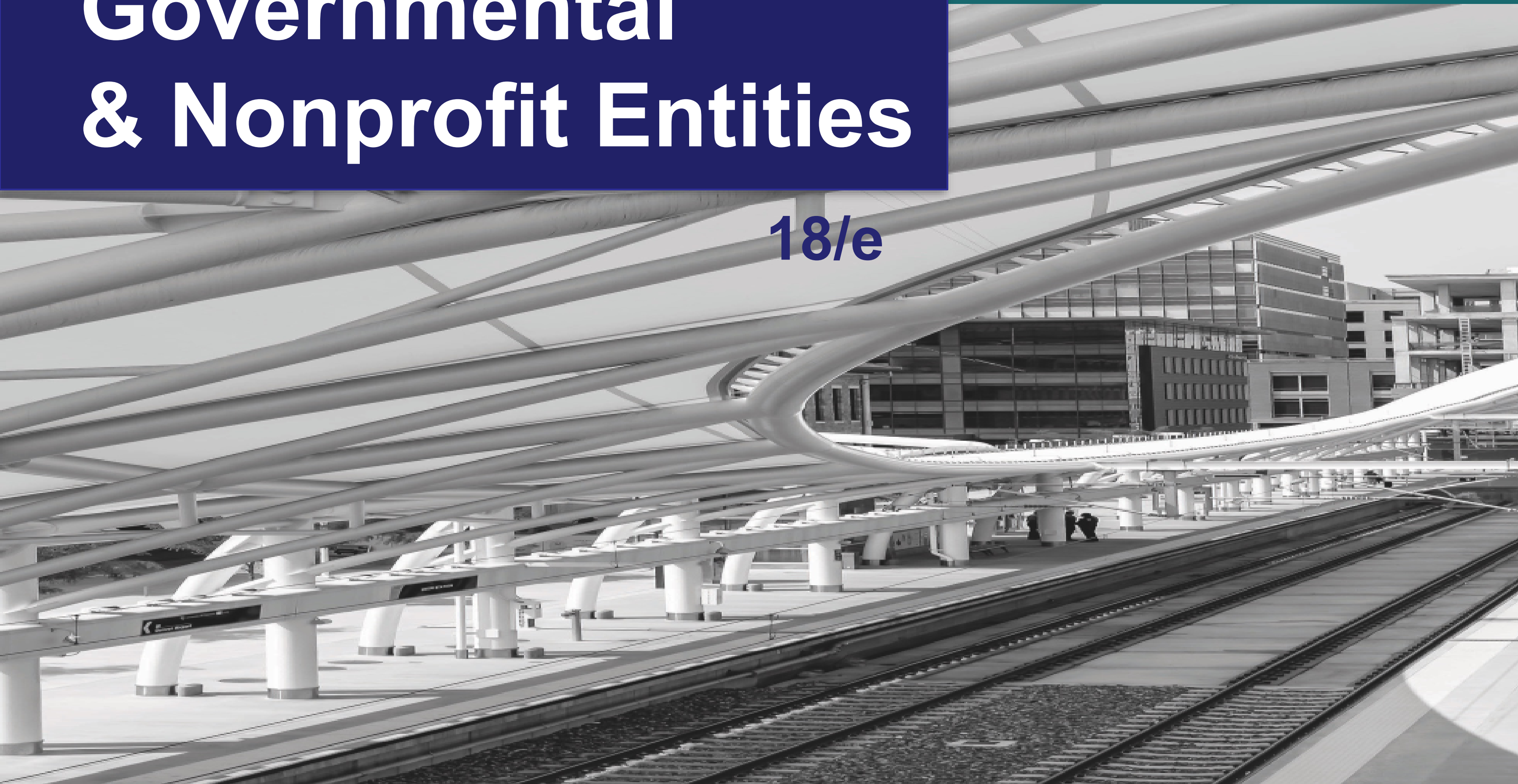

Governmental Operating Statement Accounts; Budgetary Accounting

CHAPTER 3

Learning Objectives (1 of 2)

3-1 Describe how operating revenues and expenses related to governmental activities are reported in the government-wide statement of activities.

3-2 Distinguish, in governmental funds, between Revenues and Other Financing Sources and between Expenditures and Other Financing Uses.

3-3 Discuss budgetary reporting.

3-4 Explain how budgetary and operating statement accounts are classified in the governmental funds.

Learning Objectives
(2 of 2)

3-5 Explain how budgetary accounting contributes to achieving budgetary control over revenues and expenditures, including such aspects as

Recording and revising the annual budget.

Accounting for revenues, encumbrances, and expenditures.

Closing budgetary accounts.

Government-wide Classification and Reporting of Expenses and Revenues

Net expense or revenue for each function or program reported for governmental activities is displayed in the government-wide statement of activities.

The format for reporting is as follows:

Expenses – Program Revenues = Net (Expense) Revenue

Functions and programs represent major activities or services of a government.

Functions and Programs

Functions are group-related activities that are aimed at accomplishing a major service or regulatory responsibility, such as Public Safety.

Programs are group activities, operations, or organizational units that are directed to the achievement of specific purposes or objectives, such as Highway Beautification.

Direct and Indirect Expenses

Direct Expenses

- Reported on the line for a specific function or program

Indirect Expenses

- Reported as a separate line item and not allocated to any function or program

Program and General Revenues

Program Revenues

- Reported in the functions/programs section of the statement

General Revenues

- Reported in a separate section in the bottom portion of the statement

Program Revenue Categories

Charges for services	• Charges to customers or others for both governmental and business-type activities; fines & forfeits; licenses & permits
Operating grants and contributions	• Grants and contributions restricted for operating purposes by other governments, organizations, or individuals
Capital grants and contributions	• Grants and contributions restricted for capital acquisitions by other governments, organizations, or individuals

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Reporting Special Items and Certain Transfers

The following items are reported as separate line items below General Revenues in the Statement of Activities:

- **Special items** are items *within management's control* that may be either unusual in nature or infrequent in occurrence.
- **Extraordinary items** are items or other events that are both unusual in nature and infrequent in occurrence.
- **Transfers** between governmental activities and business-type activities.

Governmental Fund Balance Sheet Accounts

Current Assets and Deferred Outflows of Resources − Current Liabilities and Deferred Inflows of Resources = Fund Balances

Governmental Fund Operating Statement Accounts

Revenues: increases in fund financial resources other than from financing sources such as interfund transfers and debt issue proceeds

Other Financing Sources: transfers into a fund and the proceeds of debt issues and sales of general government assets

Expenditures: the cost to purchase a good or service, outflows of financial resources

Other Financing Uses: transfers of financial resources from one fund to another fund

Budgetary Accounts

- The fact that budgets are legally compulsory upon administrators has led to the integration of budgetary accounts into the general ledgers of the General Fund, special revenue funds, and other funds that are required by state laws to adopt a budget.
- Each operating account has a corresponding *budgetary account*.
- With the exception of loads, the budgetary accounts have normal balances that are the opposite of the corresponding operating statement accounts.

Balance Sheet and Operating Statement Accounts

Asset Accounts
Cash
Receivables
Investments
Prepaid Items
Inventory

Deferred Outflows of Resources

−

Liability Accounts
Accounts Payable
Accrued Liabilities

Deferred Inflows of Resources

=

Fund Balance Accounts
Nonspendable
Restricted
Committed
Assigned
Unassigned

Operating Statement Accounts
Revenues
Expenditures
Other Financing Sources
Other Financing Uses

In Addition There are Budgetary Accounts

Budgetary Accounts

Estimated Revenues

Appropriations

Estimated Other Financing Sources

Estimated Other Financing Uses

loads

1st 4 accounts →

Budgetary Fund Balance

Budgetary and Operating Account Relationships

Budgetary Accounts	Operating Accounts	Budgetary Status
Estimated Revenues (Debit)	Revenues (Credit)	Net balance indicates deficit (excess) of operating (actual) vs. budgeted revenues.
Estimated Other Financing Sources (Debit)	Other Financing Sources (OFS) (Credit)	Net balance indicates the amount of remaining or overspent interfund transfer authority.
Appropriations (Credit)	Expenditures (Debit)	Appropriations minus the sum of Expenditures and loads indicates remaining or overspent expenditure authority.
Estimated Other Financing Uses (Credit)	Other Financing Uses (OFU) (Debit)	Net balance indicates the amount of remaining or overspent interfund transfer authority.
Encumbrances (Loads) (Debit)	N/A	An encumbrance has a normal debit balance because it is a commitment to make an expenditure.

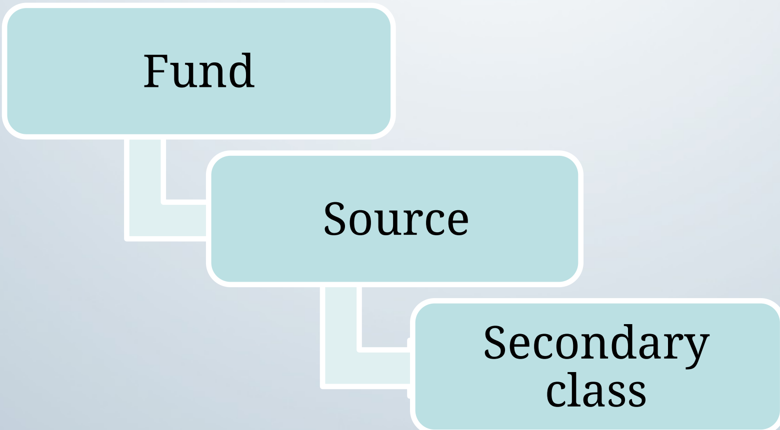
Expenditure Classification

- Fund
- Function or program
- Organization unit
- Activity
- Character

Revenue and Estimated Revenue Classification

Revenue usually includes all financial resource inflows—all amounts that increase the fund balance of a fund. A government may raise revenues only from sources available to it by law.

Revenues are classified by



Major Revenue Source Classes

- Taxes
- Special Assessments
- Licenses and Permits
- Intergovernmental Revenues
- Charges for Services
- Fines and Forfeits
- Miscellaneous Revenue

Taxes

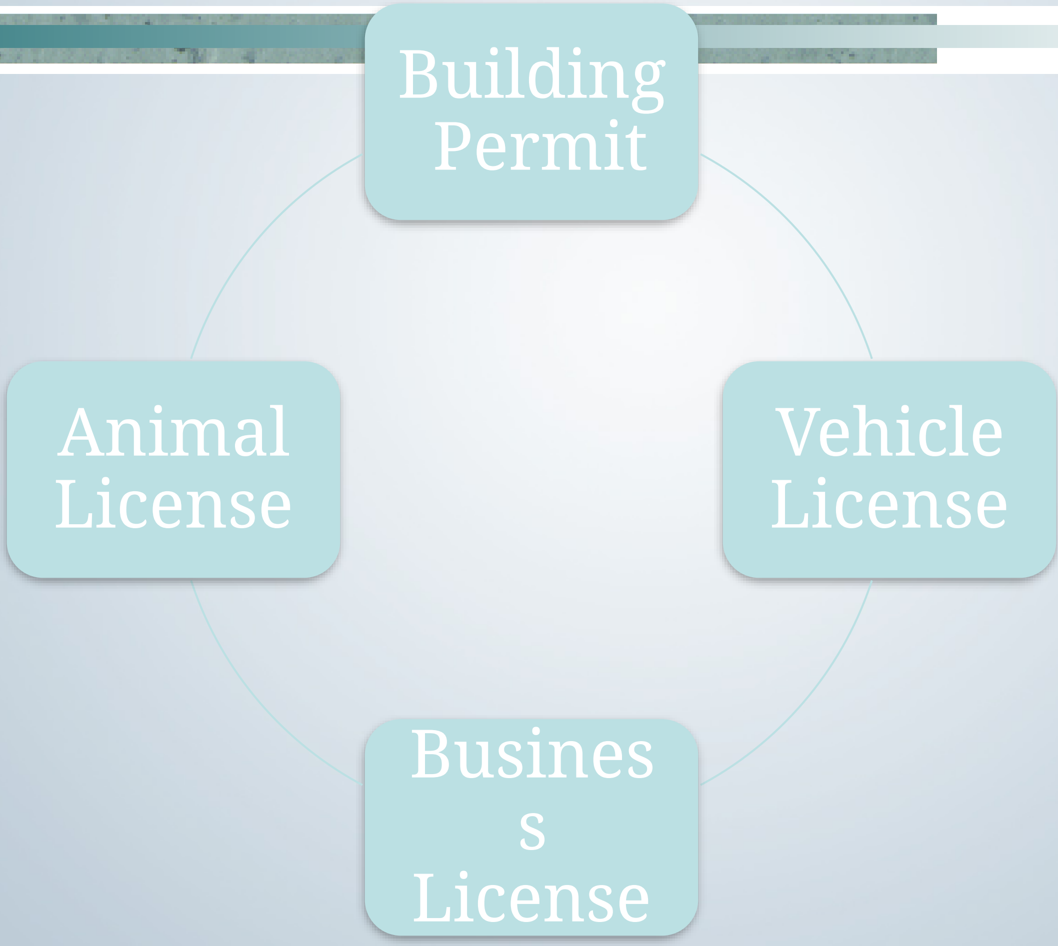
- Taxes are an important source of funding for governments because they provide a large portion of revenue and they are compulsory contributions.

- Revenue from taxes is recognized on the modified accrual basis, which means recognition occurs when the revenue is measurable and available.

Types of Taxes

- Ad Valorem Property Taxes
- Sales Taxes
- Income Taxes
- Gross Receipts Taxes
- Death and Gift Taxes
- Interest and Penalties on Delinquent Taxes

Licenses and Permits

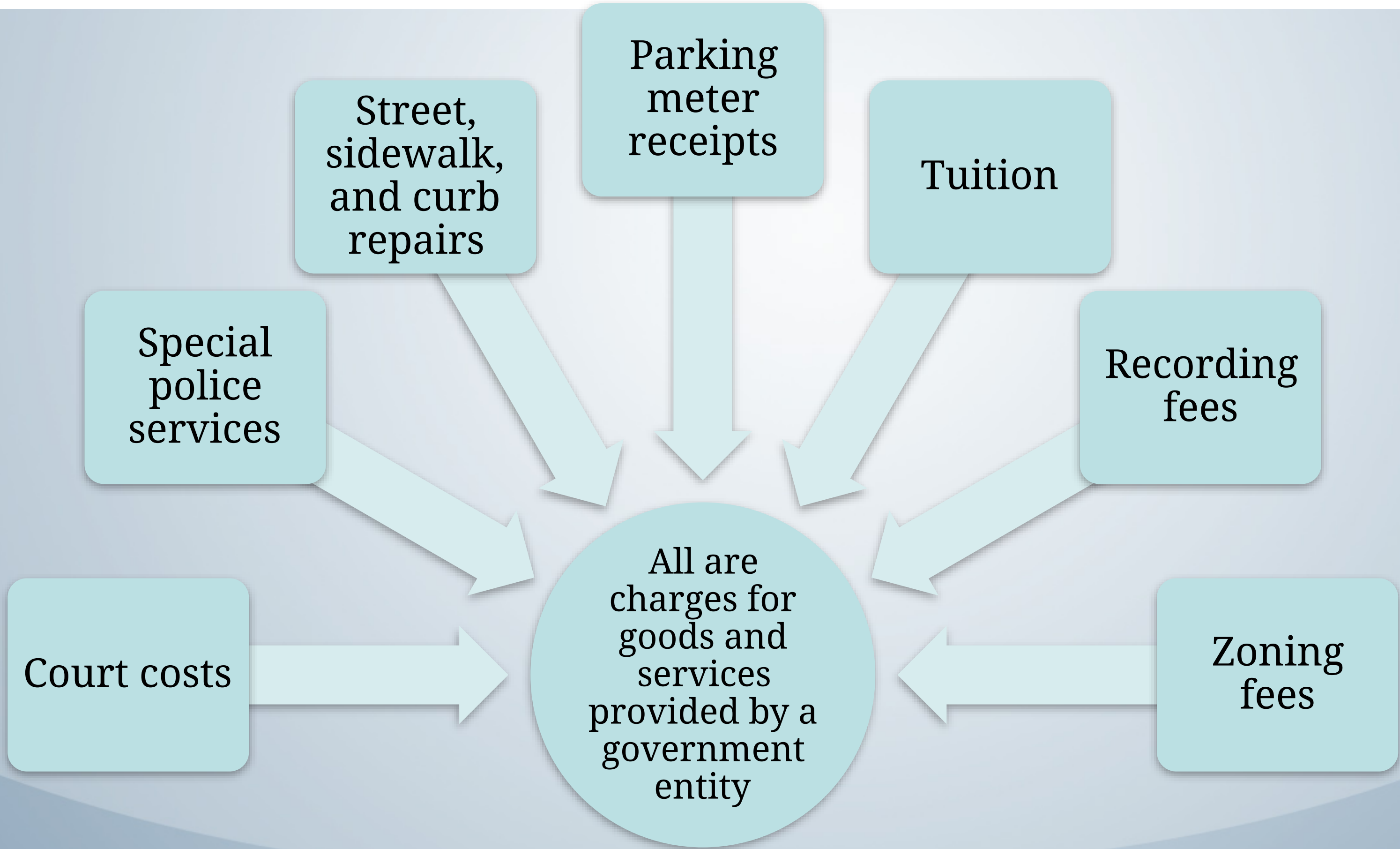


Intergovernmental Revenue

According to GASB, *grants and other financial assistance* are transactions in which one government transfers cash or other items of value to (or incurs a liability for) another government, an individual, or an organization as a means of sharing program costs, subsidizing other governments or entities, or otherwise reallocating resources to the recipients.

Grants and other financial assistance are nonexchange transactions, and may be government-mandated or voluntary.

Charges for Services

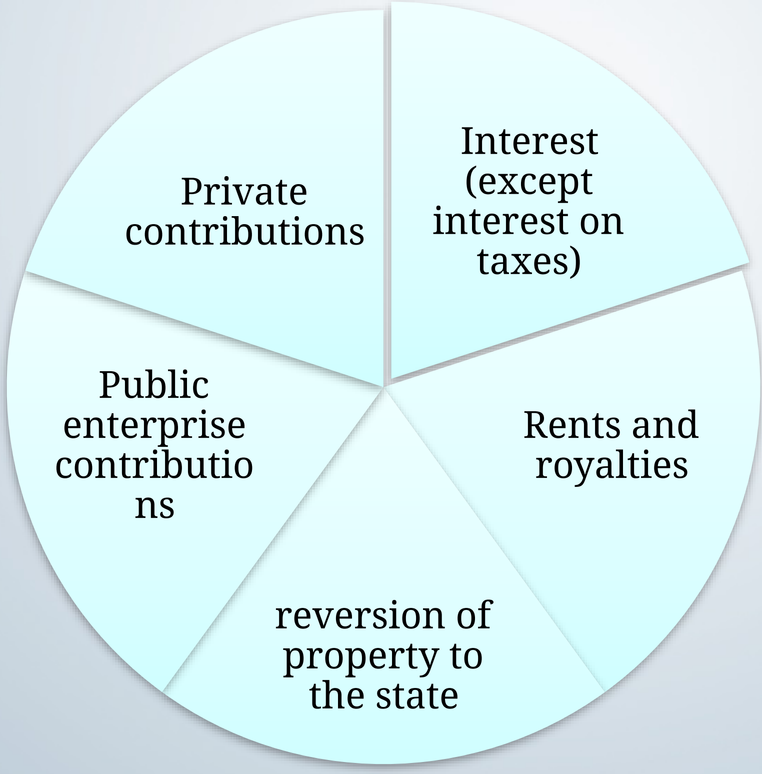


Fines and Forfeits

Revenue from fines and forfeits includes:

- Fines and penalties for commission of statutory offenses and for neglect of official duty.
- Forfeitures of amounts held as security against loss or damage, or collections from bonds or sureties placed with the government for the same purpose.
- Penalties of any sort.

Miscellaneous Revenues



Budgetary Control Accounts

- Estimated Revenues
- Appropriation
s
- Encumbrances
- Estimated Other Financing Sources
- Estimated Other Financing Uses

Recording the Budget (1 of 2)

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***
Estimated Revenues	1,277,500			
Budgetary Fund Balance		1,277,500		
Estimated Revenues Ledger:				
Taxes	882,500			
Intergovernmental Revenues		200,000		
Licenses and Permits		195,000		

Recording the Budget (2 of 2)

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***
Budgetary Fund Balance		1,636,500		
Appropriations		1,362,000		
Estimated Other Financing Uses . .		274,500		
Appropriations Ledger:				
General Government		1,150,000		
Public Safety		212,000		
Estimated Other Financing Uses Ledger:				
Interfund Transfers Out to Other Funds		274,500		

Receipt of Revenues

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***
Cash		75,100		
Revenues		75,100		
Revenues Ledger:				
Licenses and Permits		13,200		
Intergovernmental Revenues		61,900		

Records collection of revenues.

Budgetary Control of Revenues

- Each revenue account should have a comparable Estimated Revenue account to facilitate comparison throughout the year of actual revenues to estimated revenues.
- Material differences should be investigated to determine if the estimates used are no longer realistic or if actions need to be taken to ensure realization of estimated revenues.

Encumbrances and Expenditures

- Each purchase order and contract should be reviewed before it is signed to determine that a valid and sufficient appropriation exists.
- Once issued, it is important to record the fact that the appropriation has been *encumbered* in the amount of the purchase order or contract.
- When goods or services for which encumbrances have been recorded are received and the suppliers' invoices are approved for payment, the accounts should record the fact that appropriations have been *expended* and that an actual liability exists.

Budgetary Control of Encumbrances and Expenditures

	General Ledger		Subsidiary Ledger	
	Debits	*Credits*	*Debits*	*Credits*
Encumbrances—2020		45,400		
Encumbrances Outstanding—2020 .		45,400		
Encumbrances Ledger:				
General Government		38,000		
Public Safety		7,400		

Records purchase orders issued.

Budgetary Control of Encumbrances and Incurrence of Expenditures

General Ledger **Subsidiary Ledger**

Debits ***Credits*** ***Debits*** ***Credits***

Encumbrances Outstanding—2020 42,000

Encumbrances—2020 42,000

Encumbrances Ledger:

General Government 35,000

Public Safety 7,000

Expenditures—2020 42,400

Vouchers Payable 42,400

Expenditures Ledger:

General Government 35,100

Public Safety 7,300

Records partial receipt of goods ordered and actual liability incurred for goods.

Expenditures Budgetary Control Flow

Revision of the Budget

- During the fiscal year, comparisons should be made of budgeted amounts to actual amounts. A review may be necessary to determine whether the budget appears realistic or whether changes should be made in light of current information about local economic conditions; possible changes in state or federal laws relating to grants, entitlements, or shared revenues; or other changes relating to license and permit fees, fines and forfeits, and charges for services.
- If the budget is legally amended, appropriate journal entries should be made to record the changes that would adjust the budgetary accounts and budgetary fund balance.

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Closing Entries

- At the end of the reporting period the budgetary accounts Estimated Revenues, Estimated Other Financing Sources, Appropriations, and Estimated Other Financing Uses are closed to **Budgetary Fund Balance.**
- If the determined of government is to honor **outstanding encumbrances**, the account Encumbrances may remain open at the end of the reporting period. If the account is closed to Encumbrances Outstanding, **it would be reopened at the beginning of the new reporting period**.

Closing Entry for the Budget

General Ledger

Debits ***Credits***

Appropriations 1,362,000
Estimated Other Financing Uses . . 274,500
    Estimated Revenues 1,277,500
    Budgetary Fund Balance 359,000

Close related subsidiary accounts.

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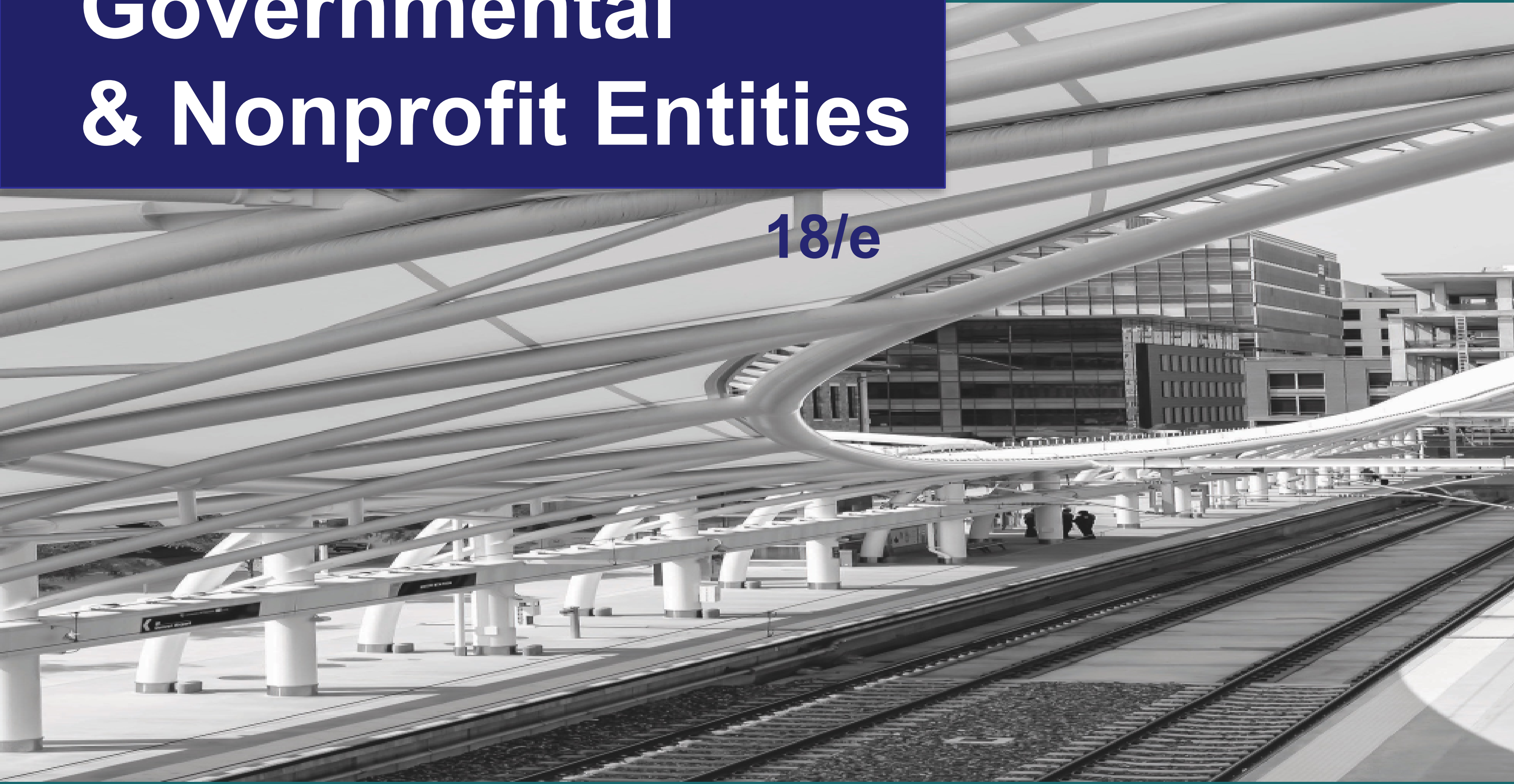

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CHAPTER 4

Accounting for Governmental Operating Activities—Illustrative Transactions and Financial Statements

Learning Objectives
(1 of 2)

4-1 Analyze typical operating transactions for governmental activities and prepare appropriate journal entries at both the government-wide and fund levels.

4-2 Prepare General Fund closing journal entries.

4-3 Prepare year-end General Fund financial statements.

4-4 Explain the purpose and characteristics of financial reporting for a special revenue fund.

Learning Objectives
(2 of 2)

4-5 Account for interfund and intra- and inter-activity transactions.

4-6 Account for transactions of a permanent fund.

4-7 Distinguish between exchange and nonexchange transactions, and define the classifications used for nonexchange transactions.

4-8 Explain the importance of interim financial reporting for state and local governments.

Measurement Focus and Basis of Accounting

Government-wide Statement of Net Position

- Economic resources measurement focus
- Accrual basis
- Current and noncurrent assets and liabilities
- All governmental activities
- Net position format

Governmental Fund Balance Sheets

- Current financial resources measurement focus
- Modified accrual basis
- Current assets and liabilities
- Governmental funds only
- Balance sheet format

Recording the Budget
(1 of 2)

	General Ledger		Subsidiary Ledger	
	Debits	*Credits*	*Debits*	*Credits*

General Fund:

1. Estimated Revenues 4,086,000

    Budgetary Fund Balance 206,000

    Appropriations .3,880,000

Estimated Revenues Ledger:

   Property Taxes .2,600,000

   Interest and Penalties on

    Delinquent Taxes 13,000

   Sales Taxes 580,000

   Licenses and Permits 220,000

   Fines and Forfeits 308,000

   Intergovernmental Revenue 280,000

   Charges for Services 82,000

   Miscellaneous Revenues 3,000

Recording the Budget
(2 of 2)

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***
Appropriations Ledger:				
General Government			660,000	
Public Safety			1,240,000	
Public Works			1,090,000	
Health and Welfare			560,000	
Culture and Recreation			315,000	
Miscellaneous			15,000	

Purchase and Encumbrance Transactions (1 of 5)

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***
General Fund:				
2. Encumbrances—2020			59,090	
Encumbrances Outstanding—2020.			59,090	
Encumbrances Ledger:				
General Government			18,500	
Public Works			15,000	
Health and Welfare			5,000	
Culture and Recreation			20,590	

Purchase and Encumbrance Transactions (2 of 5)

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***

General Fund:

3. Encumbrances Outstanding—2020 . . 22,415

Encumbrances—2020 22,415

Encumbrances Ledger:

General Government 2,300

Public Works 5,600

Health and Welfare 100

Culture and Recreation 14,415

Purchase and Encumbrance Transactions (3 of 5)

General Ledger **Subsidiary Ledger**

Debits ***Credits*** ***Debits*** ***Credits***

General Fund:

3a. Expenditures—2020 21,700

Vouchers Payable 21,700

Expenditures Ledger:

General Government 2,300

Public Works 5,500

Health and Welfare 100

Culture and Recreation 13,800

Governmental Activities:

3b. Expenses—General Government . . . 2,300

Expenses—Public Works 5,500

Expenses—Health and Welfare 100

Expenses—Culture and Recreation . 13,800

Vouchers Payable 21,700

Purchase and Encumbrance Transactions (4 of 5)

	General Ledger		Subsidiary Ledger	
	Debits	*Credits*	*Debits*	*Credits*
General Fund:				
4a. Encumbrances—2020.	15,000			
Encumbrances Outstanding—2020		15,000		
Encumbrances Ledger:				
Public Safety	15,000			
General Fund:				
4b. Encumbrances Outstanding—2020	15,000			
Encumbrances—2020.	15,000			
Encumbrances Ledger:				
Public Safety	15,000			

Purchase and Encumbrance Transactions (5 of 5)

General Ledger **Subsidiary Ledger**

Debits ***Credits*** ***Debits*** ***Credits***

General Fund:

4c. Expenditures—2020. 14,550

Vouchers Payable 14,550

Expenditures Ledger:

Public Safety 14,550

Governmental Activities:

4d. Equipment 14,550

Vouchers Payable 14,550

Payment of Liabilities

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***
General Fund and Governmental Activities:				
5. Vouchers Payable		341,700		
Due to Federal Government		90,000		
Cash		431,700		

Payroll and Payroll Taxes
(1 of 4)

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***
General Fund:				
6a. Expenditures—2020		252,000		
Vouchers Payable		202,482		
Due to Federal Government . . .		44,478		
Due to State Government		5,040		
Expenditures Ledger:				
General Government		35,040		
Public Safety		156,120		
Public Works		29,160		
Health and Welfare		19,080		
Culture and Recreation		12,600		

Payroll and Payroll Taxes
(2 of 4)

General Ledger **Subsidiary Ledger**

Debits ***Credits*** ***Debits*** ***Credits***

Governmental Activities:

6b. Expenses—General Government . . 35,040

Expenses—Public Safety 156,120

Expenses—Public Works 29,160

Expenses—Health and Welfare . . . 19,080

Expenses—Culture and Recreation . 12,600

Vouchers Payable 202,482

Due to Federal Government 44,478

Due to State Government 5,040

Payroll and Payroll Taxes
(3 of 4)

	General Ledger Debits	General Ledger Credits	Subsidiary Ledger Debits	Subsidiary Ledger Credits
General Fund and Governmental Activities:				
7. Vouchers Payable	202,482			
Cash		202,482		
General Fund:				
8a. Expenditures—2020	19,278			
Due to Federal Government		19,278		
Expenditures Ledger:				
General Government			2,681	
Public Safety			11,943	
Public Works			2,230	
Health and Welfare			1,460	
Culture and Recreation			964	

Payroll and Payroll Taxes
(4 of 4)

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***
Governmental Activities:				
8b. Expenses—General Government			2,681	
Expenses—Public Safety			11,943	
Expenses—Public Works			2,230	
Expenses—Health and Welfare			1,460	
Expenses—Culture and Recreation . .			964	
Due to Federal Government			19,278	

Collection and Reclassification of Current Taxes (2 of 2)

	General Ledger		Subsidiary Ledger	
	Debits	*Credits*	*Debits*	*Credits*
General Fund:				
11a. Revenues		249,592		
Deferred Inflows of Resources—				
Unavailable Revenues		249,592		
Revenues Ledger:				
Property Taxes		249,592		

Accrual of Interest and Penalties on Taxes (1 of 2)

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***
General Fund:				
12a. Interest and Penalties Receivable on Taxes	13,320			
Allowance for Uncollectible Interest and Penalties		2,520		
Deferred Inflows of Resources—Unavailable Revenues		10,800		

Accrual of Interest and Penalties on Taxes (2 of 2)

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***
Governmental Activities:				
12b. Interest and Penalties Receivable				
on Taxes			13,320	
Allowance for Uncollectible Interest				
and Penalties			2,520	
General Revenues—Interest and				
Penalties on Delinquent Taxes . . .			10,800	

Collection of Taxes
(1 of 3)

General Ledger **Subsidiary Ledger**

Debits ***Credits*** ***Debits*** ***Credits***

General Fund:

13a. Interest and Penalties Receivable

on Taxes 400

Revenues 400

Revenues Ledger:

Interest and Penalties

on Delinquent Taxes 400

Governmental Activities:

13b. Interest and Penalties Receivable

on Taxes 400

General Revenues—Interest and

Penalties on Delinquent Taxes . . 400

Collection of Taxes
(2 of 3)

	General Ledger Debits	General Ledger Credits	Subsidiary Ledger Debits	Subsidiary Ledger Credits
General Fund:				
14a. Cash		214,530		
Taxes Receivable—Delinquent .		207,330		
Interest and Penalties Receivable				
on Taxes		7,200		
14b. Deferred Inflows of Resources—				
Unavailable Revenues		214,130		
Revenues		214,130		
Revenues Ledger:				
Taxes—Delinquent		207,330		
Interest and Penalties on				
Delinquent Taxes			6,800	

Collection of Taxes
(3 of 3)

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***
General Fund and Governmental Activities:				
14c. Cash	214,530			
Taxes Receivable—Delinquent . .	207,330			
Interest and Penalties Receivable on Taxes	7,200			

Other Revenues
(1 of 2)

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***
General Fund:				
16a. Cash		405,000		
Revenues		405,000		
Revenues Ledger:				
Sales Taxes		145,800		
Licenses and Permits		100,000		
Fines and Forfeits			151,000	
Charges for Services			7,000	
Miscellaneous Revenues			1,200	

Other Revenues
(2 of 2)

	General Ledger		Subsidiary Ledger	
	Debits	*Credits*	*Debits*	*Credits*
Governmental Activities:				
16b. Cash	405,000			
Program Revenues—General Government—Charges for Services .	100,000			
Program Revenues—Public Safety—Charges for Services	91,000			
Program Revenues—Public Works—Charges for Services	60,000			
Program Revenues—Culture and Recreation—Charges for Services . .	7,000			
General Revenues—Sales Taxes	145,800			
General Revenues—Miscellaneous . .	1,200			

Tax Anticipation Notes

- An analysis of cash receipt and disbursement patterns may reveal that cash available for payment of expenditures will not be sufficient at times to make all required payments. Chapter 12 contains more detail on cash budgeting.
- Banks customarily meet the working capital needs of a government by accepting a **tax anticipation note** from the government. These short-term loans are secured by the taxing authority of the government.

Issuance of Tax Anticipation Notes

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***
General Fund and Governmental Activities:				
17. Cash			600,000	
Tax Anticipation Notes Payable			600,000	

Repayment of Tax Anticipation Notes

	General Ledger		Subsidiary Ledger	
	Debits	***Credits***	***Debits***	***Credits***
General Fund:				
18a. Tax Anticipation Notes Payable			600,000	
Expenditures—2020			7,500	
Cash			607,500	
Expenditures Ledger:				
Miscellaneous			7,500	
Governmental Activities:				
18b. Tax Anticipation Notes Payable			600,000	
Expenses—General Government . .			7,500	
Cash			607,500	

Special Topics: Correction of Errors

- Material errors should be corrected as soon as they are discovered. Errors related to current receivables and revenue or current expenditures should be corrected with adjustments to the affected accounts, crediting or debiting as required to correct the error.
- Errors related to prior period expenditures relate to accounts already closed to fund balance, so correction of these errors should be made to the fund balance.

Trusts

- Governments may receive contributions under trust agreements in which the principal amount is not expendable but earnings are expendable.
- Most of these trusts are established to benefit a government program or function, or the citizenry, rather than an external individual, organization, or government.
- Trusts of the first type are called **public-purpose trusts;** trusts of the second type are called **private purpose trusts.**

Accounting for Governmental & Nonprofit Entities

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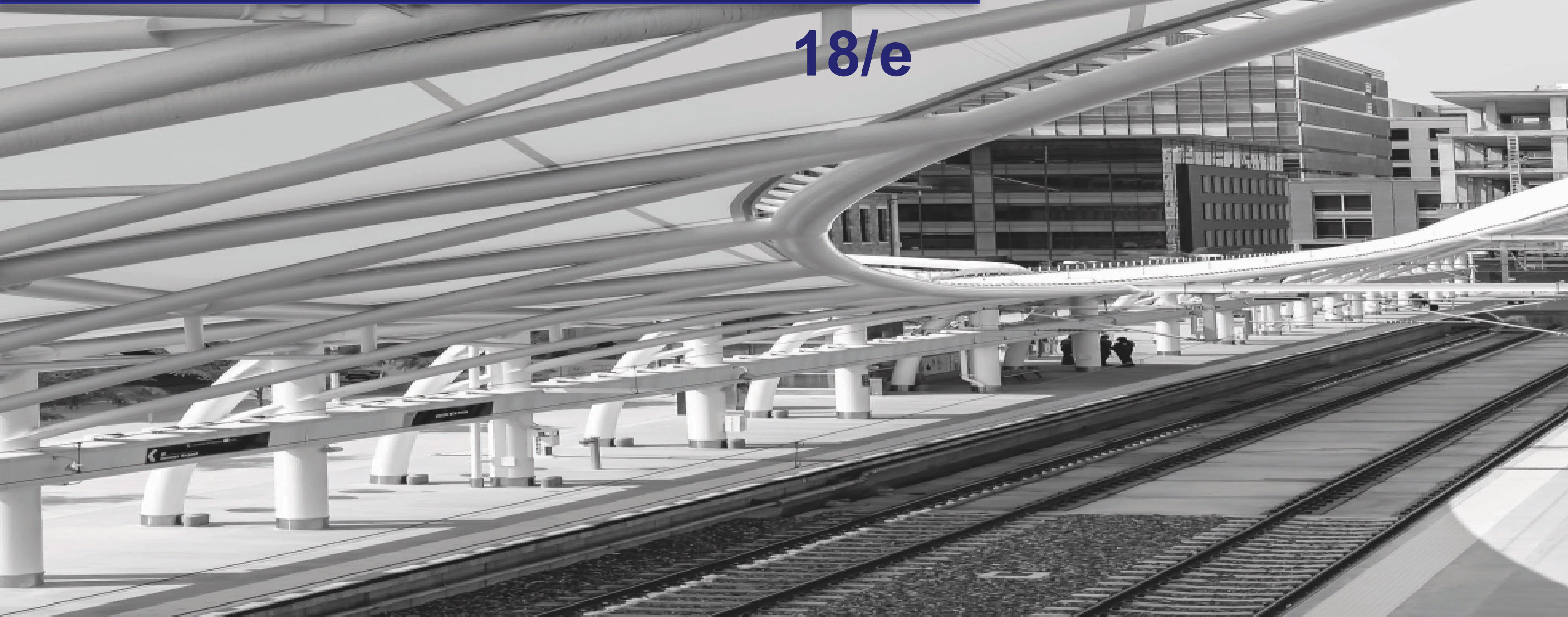

Accounting for General Capital Assets and Capital Projects

CHAPTER 5

Learning Objectives
(1 of 2)

5-1 Describe the nature and characteristics of general capital assets.

5-2 Account for general capital assets, including acquisition, maintenance, depreciation, impairment, and disposition.

5-3 Explain the purpose and features of a capital projects fund.

Learning Objectives
(2 of 2)

5-4 Prepare journal entries for a typical capital project, both at the fund level and within the governmental activities category at the government-wide level.

5-5 Prepare financial statements for a capital projects fund.

Capital Assets

- Capital assets include land, buildings, land and building improvements, construction work in progress, vehicles, machinery, equipment, works of art and historical treasures, infrastructure assets, and intangible assets.

- They are commonly financed by issuance of long-term debt to be repaid from tax revenues, special assessments against property deemed to be particularly benefited by the long-lived asset, grants from other governments, transfers from other funds, gifts from individuals or organizations, leases, or a combination of these resources.

Accounting for General Capital Assets (1 of 2)

General Fund and/or Special Revenue Funds

- Account for capital outlay expenditures from budget appropriations

Capital Projects Funds

- Account for construction and major capital expenditures

Government-wide Governmental Activities

- Account for cost and depreciation of general capital assets

Accounting for General Capital Assets (2 of 2)

Recorded at historical cost, estimated cost, or fair value

Expenditure in governmental fund

Capitalized in governmental activities

Depreciation expense reported in governmental activities only

Required Disclosures for Capital Assets

- Capital assets not being depreciated are disclosed separately from assets that are being depreciated.
- In addition to general policy for capitalizing assets and for estimating the useful lives of depreciable assets, required disclosures include:
- Beginning-of-year and end-of-year balances showing accumulated depreciation separate from historical cost.
- Capital acquisitions during the year.
- Sales or other dispositions during the year.
- Depreciation expense for the current period with disclosure of the amounts charged to each function in the statement of activities.
- Disclosures describing works of art or historical treasures that are not capitalized and explaining why they are not capitalized. If capitalized, include in the disclosures described above.

Land

Land is an inexhaustible asset, and as such, is not depreciated. The recorded value depends on how the asset is acquired.

- *Purchase* → Contract price and all related costs
- *Forfeiture* → Total amount of all taxes, liens, and other claims surrendered plus all other costs incidental to acquiring ownership and perfecting title
- *Donation* → Appraised value on date of acquisition

Buildings and Improvements Other than Buildings (1 of 2)

This category includes buildings, building improvements, and land improvements. All are depreciated, except land improvements that are inexhaustible and provide permanent benefits. The recorded value depends on how the asset is acquired.

Buildings and Improvements Other than Buildings (2 of 2)

- *Purchased* Contract price and related costs
- *Constructed*
  - *Outside contractors*: Contract price and related costs
  - *Self constructed*: All direct and indirect expenditures of the fund providing the construction but also materials and services furnished by other funds
- *Donated* Appraisal as of date of acquisition

Machinery and Equipment

Machinery and equipment are generally purchased, but may also be acquired through construction or donation. The valuation rules applied to buildings also apply to machinery and equipment. Machinery and equipment are depreciated.

Construction Work in Progress

In the governmental activities general journal, the account *Construction Work in Progress* is used to capitalize the accumulated costs of a construction project.

The account is reported on the statement of net position with other assets not being depreciated.

When construction is complete, the asset is reclassified to the appropriate category and depreciation begins.

Infrastructure Assets

- Infrastructure assets include highways, streets, sidewalks, storm drainage systems, and lighting systems, that are stationary in nature and normally can be preserved for a longer life than most other capital assets.
- Infrastructure assets are depreciated unless the government adopts the modified approach.

Modified Approach
(1 of 2)

- Under the modified approach, a government may elect not to depreciate certain *eligible* infrastructure assets, provided that two requirements are met. The two requirements are:

(1) The government manages the eligible infrastructure assets using an asset management system that includes: (*a*) an up-to-date inventory of eligible assets, (*b*) condition assessments of the assets and summary of results using a measurement scale, and (*c*) estimates each year of the annual amount needed to maintain and preserve the eligible assets at the condition level established and disclosed by the government.

(2) The government documents that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed (see item 1, (*c*) above).

Modified Approach
(2 of 2)

- At a minimum, adequate documentation must include
  (1) complete condition assessments at least every three years, and
  (2) the three most recent condition assessments must provide reasonable assurance that the eligible infrastructure assets are being preserved at or above the established condition level.
- If requirements are met and adequate documentation is maintained, all expenditures incurred to preserve the eligible infrastructure assets should be expensed in the period incurred.

Intangible Assets

Intangible assets		
Capital assets that lack physical substance	Have a useful life of more than one reporting period	Nonfinancial in nature

Reduction of Cost or Asset Disposal

- When an asset is disposed of, the cost of the asset and its accumulated depreciation should be removed from the governmental activities general ledger, and any gain or loss on disposal recognized.
- A partial reduction of cost may occur when only a part of an asset is sold, disposed of, or destroyed. The entries to record a partial reduction mirror those of a disposal.

Asset Impairments and Insurance Recoveries (1 of 2)

- An **asset impairment** is defined as a *significant, unexpected decline in the service utility of a capital asset*. Impairments occur as a result of unexpected circumstances or events, such as physical damage, obsolescence, enactment of laws or regulations or other environmental factors, or change in the manner or duration of the asset's use.
- Asset impairments result in a write-down of the asset's carrying value.

Asset Impairments and Insurance Recoveries (2 of 2)

Value of impairment

Restoration Cost Approach

Service Units Approach

Deflated Depreciated Replacement Cost Approach

Capital Projects Funds

Capital Projects Funds

- Ensure revenues and other financing sources dedicated to a certain purpose are used for that purpose and no other
- Continue to exist until the project is completed
- Do not record any debt incurred to finance the project
- No need for appropriations or estimated revenues, but use of encumbrances is recommended

Capital Projects Funds: Illustrative Transactions (1 of 7)

	Debits	Credits
Fire Station Capital Projects Fund and Governmental Activities:		
1. Cash	50,000	
Short-Term Notes Payable	50,000	
Fire Station Capital Projects Fund:		
2. Encumbrances	443,000	
Encumbrances Outstanding	443,000	
Fire Station Capital Projects Fund:		
3. Encumbrances	1,005,000	
Encumbrances Outstanding	1,005,000	

Capital Projects Funds: Illustrative Transactions (2 of 7)

	Debits	Credits
Fire Station Capital Projects Fund:		
4a. Construction Expenditures.	48,000	
Cash	48,000	
Governmental Activities:		
4b. Construction Work in Progress	48,000	
Cash	48,000	
Fire Station Capital Projects Fund:		
5a. Encumbrances Outstanding.	495,000	
Encumbrances	495,000	
5b. Construction Expenditures.	495,000	
Contracts Payable	495,000	
Governmental Activities:		
5c. Construction Work in Progress	495,000	
Contracts Payable	495,000	

Capital Projects Funds: Illustrative Transactions (3 of 7)

	Debits	Credits
Fire Station Capital Projects Fund:		
6a. Cash	300,000	
Revenues	300,000	
Governmental Activities:		
6b. Cash	300,000	
Program Revenues—Public Safety—		
Capital Grants and Contributions	300,000	

Capital Projects Funds: Illustrative Transactions (4 of 7)

	Debits	Credits
Fire Station Capital Projects Fund:		
7a. Interest Expenditures	1,000	
Short-Term Notes Payable 50,000		
Cash 51,000		
Governmental Activities:		
7b. Expenses—Interest on Notes Payable 1,000		
Short-Term Notes Payable 50,000		
Cash 51,000		
Fire Station Capital Projects Fund:		
8a. Cash 1,200,000		
Other Financing Sources—Proceeds of Bonds		1,200,000
Governmental Activities:		
8b. Cash 1,200,000		
Bonds Payable.		1,200,000

Capital Projects Funds: Illustrative Transactions (5 of 7)

	Debits	Credits
Fire Station Capital Projects Fund and Governmental Activities:		
9. Contracts Payable	495,000	
Cash	495,000	
Fire Station Capital Projects Fund:		
10a. Encumbrances Outstanding.	443,000	
Encumbrances	443,000	
10b. Construction Expenditures.	440,000	
Cash	440,000	
Governmental Activities:		
10c. Construction Work in Progress	440,000	
Cash	440,000	

Capital Projects Funds: Illustrative Transactions (6 of 7)

	Debits	Credits
Fire Station Capital Projects Fund:		
11a. Encumbrances Outstanding.	510,000	
Encumbrances	510,000	
11b. Construction Expenditures.	510,000	
Contracts Payable	510,000	
Governmental Activities:		
11c. Construction Work in Progress	510,000	
Contracts Payable	510,000	
Fire Station Capital Projects Fund and Governmental Activities:		
12. Contracts Payable	510,000	
Cash	510,000	

Capital Projects Funds: Illustrative Transactions (7 of 7)

	Debits	Credits
Fire Station Capital Projects Fund:		
13. Revenues	300,000	
Other Financing Sources—Proceeds of Bonds	1,200,000	
Construction Expenditures	1,493,000	
Interest Expenditures	1,000	
Fund Balance—Restricted	6,000	
Fire Station Capital Projects Fund:		
14a. Other Financing Uses—Interfund Transfers Out	6,000	
Cash	6,000	
14b. Fund Balance—Restricted	6,000	
Other Financing Uses—Interfund Transfers Out	6,000	
Governmental Activities:		
15. Buildings	1,493,000	
Construction Work in Progress		1,493,000

Retained Percentages

- It is common for a government to hold a portion of a contractor’s fee to cover any construction issues that may arise.
- The holdback is recorded as Contracts Payable—Retained Percentage when the billing is paid.
- The payable is reduced when the remaining percentage is either paid to the contractor or used to satisfy issues with the construction.

Capital Projects Financial Reporting

- If the Capital Projects Fund meets the definition of a major fund, it is presented in a separate column in the governmental funds financial reports.
- Nonmajor funds would be included in an aggregate column with other nonmajor funds.
- If the fund is nonmajor, details about the fund can be disclosed in the combining financial statements as a part of the recommended supplementary information.
- It is a part of the Governmental Activities column in the government-wide statements.

Looking Forward

This chapter presented an in-depth discussion of several types of general capital assets and accounting for capital projects, as well as special issues such as leases, impairment, and a discussion of Bond Anticipation Notes Payable.

In Chapter 6, we will examine in detail General Long-term Liabilities and Debt Service Funds.